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December 10, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

Subject: Amendments to Uniform System of
Accounts for Interconnection
CC Docket No. 97-212

Dear Mr. Caton:

Enclosed please find the original and eleven copies of the General Services Administration's Comments for filing in the above-referenced proceeding.

Sincerely,

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division

Enclosures

cc: Matthew Vitale, Accounting and Audits Division (1 copy and diskette)



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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of

Amendments to Uniform System of
Accounts for Interconnection

CC Docket No. 97-212

**COMMENTS
of the
GENERAL SERVICES ADMINISTRATION
and the
UNITED STATES DEPARTMENT OF DEFENSE**

EMILY C. HEWITT
General Counsel

ROBERT N. KITTEL
Chief, Regulatory Law Office

GEORGE N. BARCLAY
Associate General Counsel
Personal Property Division

CECIL O. SIMPSON, JR.
U.S. Army Litigation Center

MICHAEL J. ETTNER
Senior Assistant General Counsel
Personal Property Division

OFFICE OF THE JUDGE ADVOCATE GENERAL
U.S. Army Litigation Center
901 North Stuart Street, Suite 713
Arlington, Virginia 22203-1837

GENERAL SERVICES ADMINISTRATION
1800 F Streets, N.W., Room 4002
Washington, D.C. 20405

Economic Consultants:

Snavely King Majoros O'Connor & Lee, Inc.
1220 L Street, N.W., Suite 410
Washington, D.C. 20005

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Summary

The USOA requires changes to meet needs arising from the interconnection and resale of local exchange services. The Part 32 accounts and subsidiary accounting records must be restructured to monitor the development of competition, and to forestall any attempts by incumbent carriers to recover the costs of developing their own competitive agendas by inflating the charges for regulated services.

GSA/DOD concur with the Commission's proposal to add only five new accounts: revenue and expense accounts for Interconnection and Access to Unbundled Network Elements ("UNEs"), revenue and expense accounts for Transport and Termination, and one account to record the expenses of acquiring services for resale. Additional complexity in the account structure may burden carriers and also lead to errors in the analysis of revenue/cost relationships.

Although only a few additional accounts are required, a great deal of detailed information should be collected through subsidiary accounting records. For example, revenues and expenses for each of the individual unbundled network elements should be recorded in subsidiary records. These subsidiary records would support totals in the two new accounts for Interconnection and Access to UNEs. Similarly, subsidiary records supporting the totals in the Transport and Termination account would distinguish revenues and expenses for the constituent functions.

GSA/DOD urge the Commission to monitor shared infrastructure arrangements very carefully, even if the arrangements are governed by negotiated contracts. As new competitors develop their own markets, the ILECs will continue to control almost all of the telecommunications infrastructure. Accounting records for infrastructure sharing are required to prevent the ILECs from proposing charges for operations support

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The General Services Administration and the United States Department of Defense ("GSA/DOD"), on behalf of the customer interests of all Federal Executive Agencies ("FEAs"), submit these Comments in response to the Commission's Notice of Proposed Rulemaking ("NPRM") released on October 7, 1997. In the NPRM, the Commission requests comments and replies on rules governing the accounting treatment of transactions concerning interconnections and shared infrastructure.

I. INTRODUCTION

The FEAs require substantial quantities of interexchange and local telecommunications services throughout the nation. From this perspective, GSA/DOD have consistently supported the Commission's efforts to bring the benefits of competitive telecommunications markets to all consumers.

A primary goal of the Telecommunications Act of 1996¹ is to open all telecommunications markets to competition. The legislation requires all telecommunications carriers to interconnect directly or indirectly with the facilities and equipment of other carriers.² The Act also requires incumbent local exchange carriers ("ILECs") to ensure that the public switched network infrastructure and other telecommunications capabilities are available to qualifying carriers.³

The Commission's rules require ILECs to record their costs and revenues in the Uniform System of Accounts ("USOA").⁴ Accounts denominated in Part 32 of the USOA are used to record revenues and costs associated with the ILECs services. As the Commission observes in its NPRM, the Part 32 accounts do not reflect an *a priori* allocation of revenues, investments, or expenses to products, services, or jurisdictional structures.⁵ Instead, these accounts are intended to reflect a "functional and technological view" of the telecommunications industry.⁶ For example, in implementing Part 32, expenditures for cable are organized by technology, such as aerial, underground or buried plant, not considering whether they are used in providing local exchange or exchange access services.⁷

The present NPRM addresses issues concerning Part 32 of the Commission's rules. On October 7, 1997, the Commission also released an NPRM in CC Docket No.

¹ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, amending the Communications Act of 1934, 47 U.S.C. § 151 *et seq.* ("the Act").

² 47 U.S.C. § 251(a)(1).

³ *Id.*, § 259(a), (b)(6)

⁴ NPRM, para. 4. As described in n. 7 of the NPRM, the extent of detail required in reporting depend upon the annual revenues of a carrier from its regulated telecommunications operations.

⁵ NPRM, para. 4.

⁶ *Id.*

⁷ *Id.*

80-286 concerning Part 36 jurisdictional separations. GSA/DOD are addressing jurisdictional separations issues through comments filed in that proceeding.

II. THE COMMISSION OUTLINES IMPORTANT PROPOSALS TO MODIFY ITS PART 32 RULES

In its NPRM, the Commission tentatively concludes that there should be a new revenue account and a new expense account for Interconnection and Access to Unbundled Network Elements (“UNEs”).⁸ Carriers would employ subsidiary records, but not separate accounts, to allow revenues and expenses in these accounts to be associated with the individual unbundled elements, such as local loops, interoffice transmission facilities, and network interface devices.⁹

Similarly, the Commission tentatively concludes that there should be a new revenue account and a new expense account for Transport and Termination of interconnected traffic.¹⁰ Revenues and expenses for transport functions would be distinguished from those associated with termination in subsidiary records.¹¹

To enable the Commission to track resale, it proposes to record revenues in subsidiary records relating to existing Part 32 revenue accounts.¹² There is no need to add revenue accounts. The Act does not require carriers to offer for resale any service that is not provided directly to end users, so that the existing revenue accounts can be used for resold services as well. On the other hand, the NPRM suggests that the

⁸ *Id.*, para. 8.

⁹ *Id.*

¹⁰ *Id.*, para. 11.

¹¹ *Id.*

¹² *Id.*, para. 13.

expenses to procure telecommunications services from another carrier for resale be recorded in a new account.¹³

The NPRM addresses the potential need for procedures to record the costs of providing the interconnections themselves. The Commission tentatively concludes that no new accounts are necessary for this purpose.¹⁴ Again, the Commission recommends the use of subsidiary records, and proposes to require ILECs to maintain a sufficiently detailed accounting trail of the assignment of costs to permit audits of the assignment and amounts assigned in the subsidiary records.¹⁵

Finally, the NPRM addresses issues concerning accounting for infrastructure sharing. The Commission states that it has adopted rules that rely in large part on negotiated agreements to satisfy the requirements of Section 259 of the Act concerning infrastructure sharing.¹⁶ While the Commission tentatively concludes that no modifications in the Part 32 rules are need to accommodate infrastructure sharing, it seeks comments from interested parties on this matter.¹⁷

III. PART 32 RULES MUST PERMIT THE COMMISSION TO MONITOR COMPETITION AND TO PROTECT RATEPAYERS.

The Commission states that its proposed changes are intended to accomplish four primary goals:

- facilitate uniform reporting among ILECs concerning interconnection and infrastructure sharing arrangements;

¹³ *Id.*

¹⁴ *Id.*, para. 14.

¹⁵ *Id.*

¹⁶ *Id.*, para. 15.

¹⁷ *Id.*, para. 16.

- enable the Commission to monitor the development of competition and the deployment of advanced telecommunications capabilities;
- ensure that regulated ratepayers do not bear the costs of ILECs' competitive activities; and
- assist the Commission in evaluating petitions by ILECs for forbearance from regulation pursuant to Section 10 of the Act.¹⁸

GSA/DOD concur with these goals. Open competition will require that regulators have accurate, timely and reasonably uniform cost data on interconnection and infrastructure sharing and that this Commission, especially, has the information necessary to evaluate the growth of competition and the deployment of advanced technologies on a national scale.

Most end users, including large and experienced business subscribers such as Federal agencies, still have few or no alternative providers for local telecommunications services in most parts of the nation. These end users depend on regulatory oversight to help ensure that ratepayers without alternatives do not bear the costs of efforts by ILECs to unfairly advance their own positions in potentially competitive markets.

GSA/DOD believe that some modifications in the Part 32 Rules and other elements of the separations process are required for open competition. As discussed in the following sections of these comments, GSA/DOD believe that the Commission's proposals for changes in Part 32 Rules should be adopted. Moreover, as discussed in the comments submitted in CC Docket No. 80-286, GSA/DOD believe that some major changes in the jurisdictional separations procedures are also needed.

¹⁸ *Id.*, para. 6.

IV. GSA/DOD CONCUR WITH THE COMMISSION'S PROPOSAL TO ESTABLISH FIVE NEW ACCOUNTS.

The NPRM suggests the addition of only five new accounts: revenue and expense accounts for Interconnection and Access to UNEs, revenue and expense accounts for Transport and Termination, and one account to record the expenses of acquiring services for resale. Subsidiary records would be used to meet additional reporting needs. GSA/DOD agree that these new accounts are necessary.

GSA/DOD agree that additional primary accounts are not necessary. Excessive complexity in the account structure should be avoided, because it may burden carriers who must generate and retain records, and confuse end users who must analyze and interpret them. In addition, carriers may be able to exploit the existence of accounts with overlapping functions to distort revenue/cost relationships, ultimately saddling regulated ratepayers with the costs of their purely competitive activities.

V. IMPORTANT DATA TO MONITOR THE DEVELOPMENT OF COMPETITION SHOULD BE RETAINED IN SUBSIDIARY ACCOUNTING RECORDS.

Although only a few additions are required to the basic USOA structure, a great deal of important data should be retained in subsidiary accounting records. For example, GSA/DOD believe that revenues and expenses associated with interconnection should be distinguished from those associated with the provision of unbundled network elements. Furthermore, revenues and expenses associated with unbundled network elements should be separated by element, at least for an initial period. These subsidiary records would support the two new accounts for Interconnection and Access. These records are necessary for the Commission to monitor the development of competition and to assess deployment of advanced telecommunications capabilities.

Similarly, support is required for the new revenue and expense accounts associated with Transport and Termination of interconnected traffic. In its *Local Interconnection Order* in CC Docket No. 96-98, the Commission defined "transport" as the transmission of traffic between the point where two carriers interconnect and the end office switch that directly serves the called party.¹⁹ In the same Order, "termination" was defined as the switching of the interconnected traffic at that end office. The distinction between these two different functions, which the Commission described precisely,²⁰ should be maintained through supporting records to permit the Commission to gauge the extent of the competition for each of the two functions.

The Act imposes a duty on ILECs to offer for resale any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers.²¹ As explained above, GSA/DOD support the Commission's proposal to establish a new account to accumulate the expenses incurred by carriers to obtain these wholesale services. Since a revenue account exists for each service to be resold, a new account to aggregate resale revenues is not needed. However, the Commission suggests that subsidiary records be used to distinguish wholesale revenues from the revenue obtained for corresponding services provided directly end users.²² GSA/DOD also concur with this plan, because it will provide additional data to monitor the development of competition for each principal type of service identified in the existing USOA. For example, these subsidiary records

19 Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *First Report and Order*, CC Docket No. 96-98, 11 FCC Rcd 15499 (1996) ("Local Competition Order") *aff'd in part, vacated and remanded*, Iowa Util. Bd. v. FCC, No 96-3321 et al. WL 403401 (Eighth Cir. July 18, 1997).

20 *Id.* at 16015.

21 47 U.S.C. § 251(c)(4).

22 NPRM, para. 13.

would enable the Commission to separate each Local Network Services Revenue account, including basic local service revenue, public telephone revenue, local private line revenue, other local exchange revenue (for features such as call forwarding and call waiting) into "direct to end user" and "end user through resale" components. GSA/DOD believe that this information will be indispensable in measuring competition.

VI. DETAILED SUPPORTING RECORDS, BUT NO NEW ACCOUNTS, ARE NECESSARY TO MONITOR INFRASTRUCTURE SHARING.

The Act requires ILECs to make their network infrastructures available to all qualifying carriers eligible to receive universal service support.²³ The legislation limits sharing requirements to those cases in which the new carrier does not seek to use the shared infrastructure to compete directly with the ILEC.²⁴

In addressing the implementation of sharing requirements in CC Docket No. 96-237, the Commission noted that it wished to rely heavily on negotiated agreements to meet the goals of the Act concerning infrastructure sharing.²⁵ Therefore, in this NPRM the Commission tentatively concludes that it will not need to establish distinct Part 32 accounts or subsidiary record keeping categories for the revenues and expenses associated with infrastructure sharing.²⁶

GSA/DOD do not believe that the Commission should rely on negotiated agreements to this extent. While additional accounts may not be necessary, supporting records are essential. The telecommunications infrastructure includes

²³ 47 U.S.C. § 259 and § 214(e).

²⁴ *Id.*, § 259 (b)(6).

²⁵ NPRM, para. 16.

²⁶ *Id.*

operational support systems ("OSS"), which encompass platforms for ordering, billing and maintaining services. The infrastructure also encompasses many additional functions, such as directory and information services, which new competitors will not be able to provide themselves at the start. It is important for regulatory authorities to have accounting data on sharing of these activities, because joint use will be necessary for open competition.

The ILECs control almost all of the local telecommunications infrastructure in their respective service areas. This control will continue for some time, even as the new carriers begin to develop their own markets. Accounting records for infrastructure sharing are required as checks on the ability of ILECs to charge rates for sharing that are out of line with costs, and thus impede open competition.

In its *Local Competition Order*, the Commission concluded that the OSS are critical to the ability of competing carriers to employ network elements and resale services to compete with ILECs.²⁷ Also, the Commission concluded that provision of access to OSS "falls squarely" within the obligations placed on Bell operating companies before they will be authorized to provide interLATA services within their own operating areas.²⁸ In its recent order rejecting the Application of Ameritech Michigan to provide interLATA services, the Commission stated that it did not even have a factual basis for making a finding that the carrier was providing non-discriminatory access to OSS.²⁹ While the deficiencies specifically identified by the Commission related to lack of performance data, it is not possible to support (or rebut)

²⁷ 11 FCC Rcd at 15763.

²⁸ *Id.*, at 15660-61.

²⁹ Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in Michigan, CC Docket No. 97-137, Memorandum Opinion and Order released August 19, 1997, para. 204.

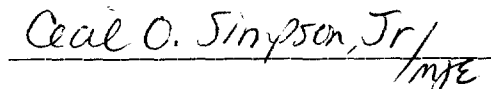
claims that it is unreasonably costly to meet performance goals for sharing without accounting records that show the costs that are being incurred.

VIII. CONCLUSION

As major users of telecommunications services, GSA/DOD urge the Commission to implement the recommendations concerning accounts and supporting records described in these Comments.

Respectfully submitted,

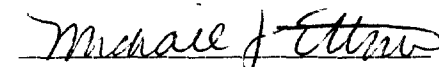
ROBERT N. KITTEL
Chief, Regulatory Law Office


CECIL O. SIMPSON, JR.
General Attorney

OFFICE OF THE JUDGE ADVOCATE GENERAL
U.S. Army Litigation Center
901 N. Stuart Street, Suite 713
Arlington, Virginia 22202-1837
(703) 696-1643

EMILY C. HEWITT
General Counsel

GEORGE N. BARCLAY
Associate General Counsel
Personal Property Division


MICHAEL J. ETTNER
Senior Assistant General Counsel
Personal Property Division

GENERAL SERVICES ADMINISTRATION
1800 F Street, N.W., Rm. 4002
Washington, D.C. 20405
(202) 501-1156

December 10, 1997

CERTIFICATE OF SERVICE

I MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 10th day of December, 1997, by hand delivery or postage paid to the following parties:

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Matthew Vitale
Federal Communications Commission
Accounting and Audits Division
2000 L Street, NW, Room 200F
Washington, DC 20554

The Honorable Susan Ness
Commissioner
Federal Communications Commission
1919 M Street, NW - Room 832
Washington, D.C. 20554

Richard B. Lee
Vice President
Snively King Majoros O'Connor
& Lee, Inc.
1220 L Street, NW, Suite 410
Washington, D.C. 20005

The Honorable Harold Furchtgott-Roth
Commissioner
Federal Communications Commission
1919 M Street, NW
Washington, D.C. 20554

International Transcription Service, Inc.
Suite 140
2100 M Street, NW
Washington, D.C. 20037

The Honorable Michael Powell
Commissioner
Federal Communications Commission
1919 M Street, NW
Washington, D.C. 20554

Edith Herman
Senior Editor
Communications Daily
2115 Ward Court, NW
Washington, D.C. 20037

The Honorable Gloria Tristani
Commissioner
Federal Communications Commission
1919 M Street, NW
Washington, D.C. 20554

Telecommunications Reports
11th Floor, West Tower
1333 H Street, NW
Washington, D.C. 20005

Michael J. Ettner